

Memorandum

To

PRIVILEGED & CONFIDENTIAL

Region Presidents
Robert E. Norton
Chris D. Thom

From

H. Eugene Lockhart *HL*

Date

May 6th, 1996

Subject

Amex

Copies to

William I Jacobs, Gayle M. Rigione, Mary C. Johnsson, Anne P. Ko

Now that Amex has come out of the closet (see the attached note from Robert E. Norton), I think we have to consider our options very carefully. In this regard, I have the following initial thoughts:

1. I believe we should consider this threat very real; e.g. Amex will put serious money behind this in terms of incentives and marketing.
2. If we don't play our cards right, we have the most to lose. One scenario could be the following:
 - VISA holds firm on its rule and VISA banks don't issue Amex.
 - Amex pays huge incentives to primarily MasterCard banks who have no such rule restriction.
 - VISA uses this play to market against us; a la AT & T

Another scenario is also equally possible:

- VISA holds firm on its rule.
- Amex pays huge incentives and attracts one or two large VISA banks who flip their portfolio to MasterCard/Amex.

I am sure there are other permutations.

3. My guess is that Amex will target three products:
 - Corporate T&E for medium sized and small business.
 - Platinum cards (we don't have a competing product yet)
 - Mid-level revaluing cards through OPTIMA.

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RMN
cc for GL's to be handed out at next staff meeting.

MS
MasterCard
International



We should get our product people to quickly compare/contrast our product features and interchange levels on each of these. It will be important to model member profitability against our offerings vs. Amex so we know what we are up against. Anne Ko should work with product units to synthesize this work.

4. We need to call key members who will be susceptible to this and other Board members to assess their plans. My guess is that the following US members will be targets:
 - a) MELLON
 - b) BONY
 - c) WELLS
 - d) FLEET
 - e) KEYCORP
 - f) FIRST USA
 - g) WACHOVIA
 - h) GE
 - i) FINGERHUT (We know they are)
 - j) AT&T

Alan Heuer should coordinate this and feedback reactions.

5. Given their likely use of Platinum, we should step-up our efforts to roll out a Premium offering. This offering should have very attractive interchange rate and strong fees.
6. I understand we are currently looking at US pricing and interchange. If Amex fights on interchange, then we may have to be more aggressive for selected acceptance categories. Alan Heuer should task the acceptance group (working very closely with Jason Rogers who knows Amex well from his VISA days) and identify by category what we could do to compete better using interchange as a tool.
7. Amex will link travel services as a competitive weapon to the product we offer. We should now act seriously to develop a strong alliance with Carlson.
8. On balance, I don't think VISA will budge. That is likely to put pressure on us. We may need to be clever in our rules development to look flexible but have criteria which ensure our continued share. For example, we should consider thoughts like:
 - a) Allowing Amex issuance for certain products not others.
 - b) Requiring higher share (\$ volume) targets to be MasterCard for portfolios that issue Amex (e.g. Having portfolio minimums for MasterCard of 80% - 90% of total portfolio)

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- c) requiring special brand development fees to be paid to us if an issuer issues Amex; these should be punitive.
- d) Others (there are probably many other valid ideas).

We should discuss this at SMG on Wednesday.

Thank you.

HEL/lje

Attachment

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